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C O N F I D E N T I A L SECTION 01 OF 02 NAIROBI 001688

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DEPT FOR AF/E, AF/EPS, EB/IFD/OMA
USAID FOR AFR/DP WADE WARREN, AFR/EA JEFF BURNS AND
JULIA ESCALONA
MCC FOR KEVIN SABA AND MALIK CHAKA
TREASURY FOR LUKAS KOHLER
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 4/19/2031
TAGS: ECON PGOV EAID EFIN KCOR PREL PINR KE
SUBJECT: RAISING THE LATEST MEGA-SCANDAL WITH KENYAN
DELEGATION TO WORLD BANK/IMF MEETINGS

Ref: A) Nairobi 1635, B) Nairobi 1614

Classified by Econ Counselor John Hoover for reasons 1.4
(B) and (D).

¶11. (C) Summary: This is an action request - please see para ¶16. It is increasingly clear that Kenya has another mega-scandal waiting in the wings to be exposed. In this case, it takes the form of a massive money laundering and tax evasion scheme involving a small local bank and the country's largest supermarket chain, both reportedly controlled by the same powerful and influential businessman. The ball is in the court of Minister of Finance Amos Kimunya, who has yet to act publicly on a letter conveyed to him March 20 by the Central Bank providing details of the scandal and recommending closure of the bank. In the context of Kimunya's upcoming visit to Washington to repair relations with major donors over governance issues, Embassy Nairobi strongly recommends that USG interlocutors raise the issue with Kimunya and encourage him to take swift and decisive action to expose and investigate the allegations. End summary.

Pieces of the Puzzle Fit Together

¶12. (C) Econ/C met April 18 with respected local Nairobi journalist and businessman Robert Shaw (strictly protect) at the latter's request. Shaw confirmed the story pieced together and reported ref B, namely that an investigative team assembled by Central Bank of Kenya (CBK) Governor Andrew Mullei had over the past year uncovered a massive tax evasion and money laundering scandal involving Charter House, a small local bank, and Nakumatt Holdings, Kenya's largest supermarket chain. Shaw agreed with other observers that Mullei's subsequent arrest and dismissal was directly linked to the investigation, and that the charges of "abuse of office" were merely a pretext to get him out of the way. Like others, Shaw believes John Harun Mwau, who holds a controlling share in the bank and supermarket chain, was behind Mullei's dismissal. According to Shaw, Mwau did so by manipulating First Lady Lucy Kibaki to demand Mullei's exit from her husband, President Mwai Kibaki.

¶13. (SBU) Shaw wrote a stinging commentary in the April 7 edition of the Nation newspaper calling on Finance Minister Amos Kimunya to act decisively and transparently on a

letter received March 20 from Mullei recommending closure of the bank and further investigation. Shaw told Econ/C that the Nation had a copy of both the letter and the underlying 30-page audit report containing the detailed evidence of the money laundering operation and tax evasion scheme. Thus far, the Nation has published only limited details publicly, taking care not to identify the bank or Mwau by name. In response to the press revelations, Kimunya has publicly acknowledged receipt of the Mullei letter. Terming the case "complex," he has said he will study the issue before making any decisions. It is now nearly a month since Kimunya received the Mullei letter.

Upshot: Kimunya Needs to Act to Save Credibility

14. (C) The upshot of these developments is that Kenyans, and especially Finance Minister Kimunya, find themselves at yet another critical and uncomfortable crossroads in the war against corruption and political impunity. Kimunya is not tarnished in any way by the money laundering and tax evasion allegations. But he will discredit himself if he fails to act swiftly, decisively, and transparently to deal with this latest mega-scandal. Inaction or cover-up would also further undermine what little confidence remains at home and abroad in the GOK's broader commitment to good governance. And this comes ironically at precisely the moment Kimunya is working hard to repair the GOK's image and its relations with donors in the wake of the Anglo-Leasing revelations (ref A).

15. (C) This will not be easy to do. Kimunya is a relative lightweight politically and is ultimately up against a

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culprit in John Mwau who has formidable political influence at State House and essentially unlimited financial resources. Mwau may pose a physical threat to those who cross him, as well (see ref B).

Talking Points for Washington

16. (SBU) Nonetheless, it is in this context that Embassy Nairobi strongly recommends that USG policymakers at State, Treasury, and the Millennium Challenge Corporation raise the money laundering scandal when meeting with Minister Kimunya and his delegation during or on the margins of this weekend's World Bank/IMF meetings. Given the primary purpose of Kimunya's visit - to repair damage done to the credibility of the GOK in fighting corruption - we should encourage Kimunya to resolve the budding scandal as quickly and decisively as possible. We have urged the local reps of the IMF, the World Bank, and the UK government to recommend similar action with their counterparts in Washington and London. Suggested talking points follow:

-- We understand you are in possession of a letter and a report from the Central Bank which detail credible evidence of a massive money laundering and tax evasion scandal.

-- We are deeply concerned about these latest allegations of another mega-scandal.

-- We are especially concerned about allegations of a major international money laundering operation since this is almost certainly linked to other illicit activities, such as perhaps narco-trafficking.

-- Can you tell us how you are addressing this issue?

-- It's absolutely essential to your own and to your government's credibility that the issue be resolved swiftly, decisively, and transparently.

-- If there is a scandal here, then it represents an opportunity for the Kenyan leadership to put its rhetoric into action by taking decisive action.

-- We urge you to capitalize on this opportunity to signal an end to the culture of impunity and to rebuild the confidence of the Kenyan people and your friends in the international community.

Bellamy